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Honorable Mayor and City Council  
City of Laguna Beach, California

In planning and performing our audit of the financial statements of the City of Laguna Beach ("the City") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. **We did not identify any deficiencies in internal control that we consider to be material weaknesses.**

However, we observed the following other matters, which were not deemed to be significant deficiencies or material weaknesses, which are offered for consideration by the City to further enhance its system of internal controls.

#### (1) Parking Citations

The Police Department contracts with Turbodata for the collection of payments received for parking citations issued by the City's Police Department. Current practice of the Police Department with respect to parking citations does not include reconciling the dollar value of the parking citations issued by the Police Department with the amount remitted to the City by Turbodata.

#### Recommendation

We recommend that the Police Department periodically compare the payments collected by Turbodata with the number of citations issued to ensure that the City is receiving the appropriate amount of parking citation revenue from its contractor.

Mgt. Dir.  
3/10/09

**(1) Parking Citations, (Continued)**

**Management's Response**

As recommended, management will develop internal control procedures to reconcile the payments collected by Turbodata with the number of citations issued.

**(2) Ethics Policy (Code of Conduct)**

The City does not have a formal ethics policy. New auditing standards in effect for 2008 recommend the use of a formal ethics policy or code of conduct to reinforce management's commitment to a strong ethical culture. A formal ethics policy can be an effective method of communicating and reinforcing an antifraud culture within an organization. An ethics policy communicates to all employees the City's position and policy on matters such as the following:

- Management's commitment to a strong ethical culture within City departments
- Risks that the City faces from fraud, abuse, and other forms of misconduct;
- An ethical code of conduct;
- Definitions of ethical misconduct, including fraud, misappropriation, failure to follow City policies and procedures, misuse of restricted funds, misstatement of financial records;
- Employee's responsibility to report suspected ethical misconduct (including an established reporting mechanism, such as to human resources, a designated member of City management, the city attorney, use of a hotline service, etc.);
- Organizational responsibility to investigate unethical conduct; and
- Disciplinary action for violations

**Recommendation**

New standards in effect for 2008 recommend that organizations develop and implement a formal ethics policy. Some organizations provide that employees acknowledge upon hire the employee's receipt of a copy of the policy. Some organizations also provide that employees sign a copy of the policy on an annual basis as evidence of their reaffirmation that they understand the policy and have complied with its provisions. We recommend that the City implement procedures that are believed to be appropriate for its size and structure.

**Management's Response**

Management will consider establishing a formal ethics policy subject to available staff time.

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We appreciate the opportunity to present these comments and suggestions and can discuss these matters further at your convenience, along with any implementation assistance for changes and improvements you may require.

The City's written responses to the significant deficiencies identified in our audit are described above. We did not audit the City's responses, and accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the City Council, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Mayor Hoffman McGowan P.C.*

Irvine, California  
January 9, 2009